Micro-Economic Monitor

Second Quarter 2002

Micro-Economic Analysis Directorate, Policy Sector, Industry Canada.
This document is also available on the Internet at http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/04.html

103-00087

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Overview

The Canadian economy grew solidly again in the second quarter...

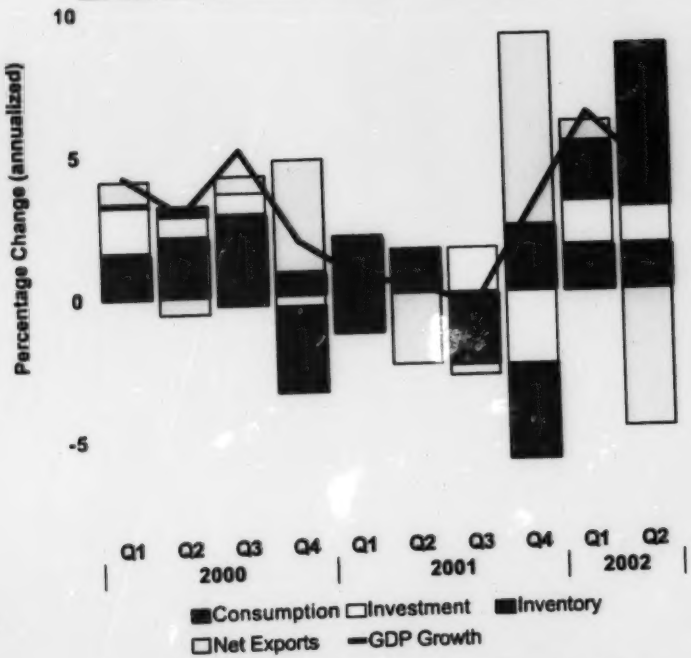
Real Gross Domestic Product (GDP) increased at an annualized rate of 4.3% in the second quarter of 2002, following a 6.2% growth in the first quarter; the strongest two consecutive quarters of growth in two and half years.

Strong consumer spending on services and a pick-up in business investment in machinery and equipment boosted growth. Imports were up substantially to satisfy domestic demand and the replenishing of inventories. However, exports weakened reflecting slowing United States (U.S.) demand.

Monthly GDP data show that the economy lost some momentum towards the end of the quarter. But, more recent data point to continued solid economic performance in the third quarter with strong job creation in July and August.

By contrast, real GDP growth in the U.S. fell sharply to 1.1% in the second quarter, from 5.0% in the first. U.S. labour market conditions have remained weak. Employment posted only small increases in July and August following several months of substantial job losses concentrated in the manufacturing sector.

Contributions to Quarterly Real GDP Growth* (Annualized)



* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

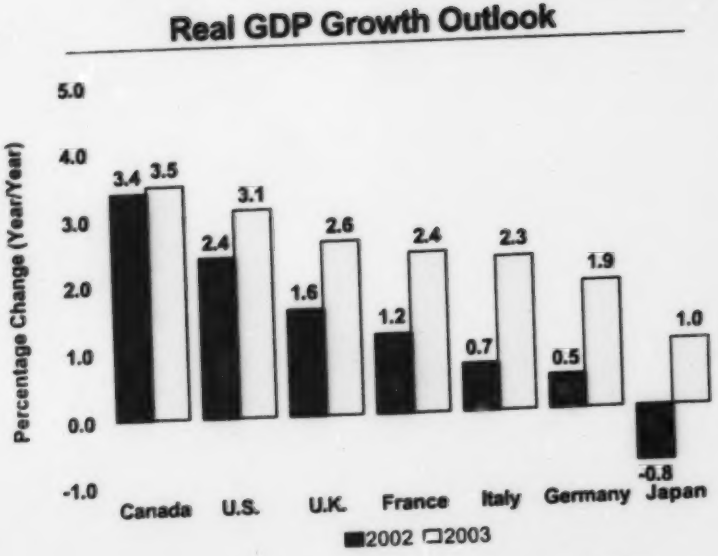
Source: Statistics Canada

A-1

...and is expected to lead the G-7 in 2002 and 2003

In light of weaker economic conditions, particularly in the U.S., the growth outlook for the G7 has been revised down compared to three months ago, albeit less for Canada. Canada's real GDP growth is expected to be the strongest among the G7 in 2002 and 2003.

On September 4th, the Bank of Canada left interest rates unchanged, reflecting concerns about weakened prospects for the U.S. and other major overseas countries. The U.S. Federal Reserve has kept the Federal funds rate unchanged at 1.75%.



Source: U.K. Consensus Forecasts, September 2002

A-2

Domestic Scene

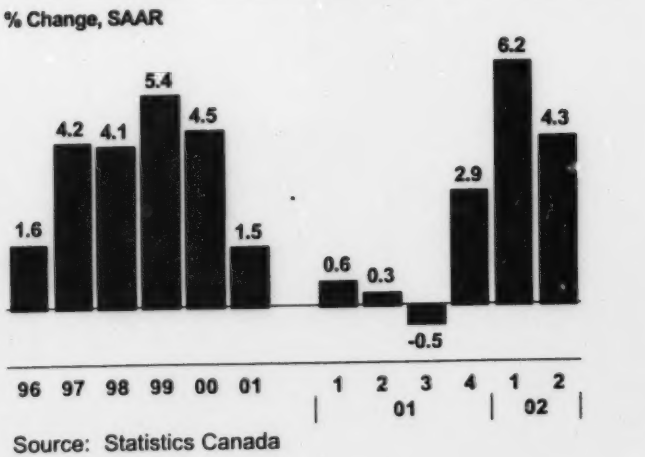
Real Economic Activity

The economy continued to grow strongly in the second quarter...

Real GDP jumped at an annualized rate of 4.3% in the second quarter of 2002, following growth of 6.2% in the first quarter. This represents the strongest two consecutive quarters of growth in two and half years.

- **Strong consumer spending on services and robust business investment in machinery and equipment boosted growth.**

Real GDP Growth



Source: Statistics Canada

There is evidence of a significant slowdown in the U.S. where real GDP rose by only 1.1% in the second quarter of 2002, down from 5.0% in the previous quarter. Canadian GDP growth has strongly outperformed the U.S. in seven of the last eight quarters.

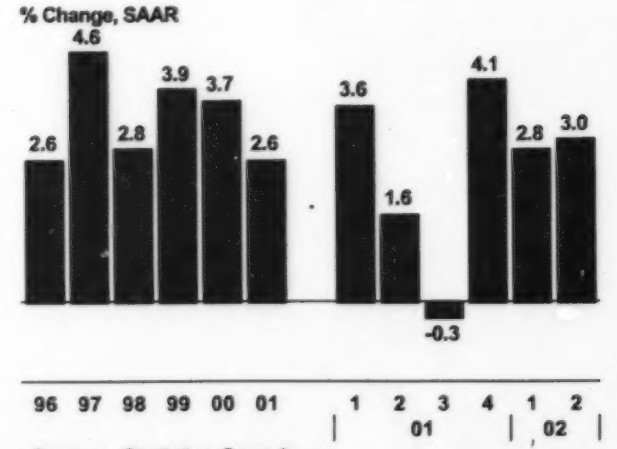
...fuelled by strong consumer spending...

Consumer spending increased by 3.0% in the second quarter, a similar pace as in the previous quarter.

- **The largest increase was in services which rose 5%, from 0.5% in the previous quarter. More than a quarter of growth came from recreational services. Spending on household furnishings and appliances were also up reflecting a strong housing market.**

- **In contrast, spending on durables declined 0.7%, with motor vehicles spending dropping 4.3%. However, purchases of motor vehicles still remained near record levels.**

Real Consumer Expenditure Growth



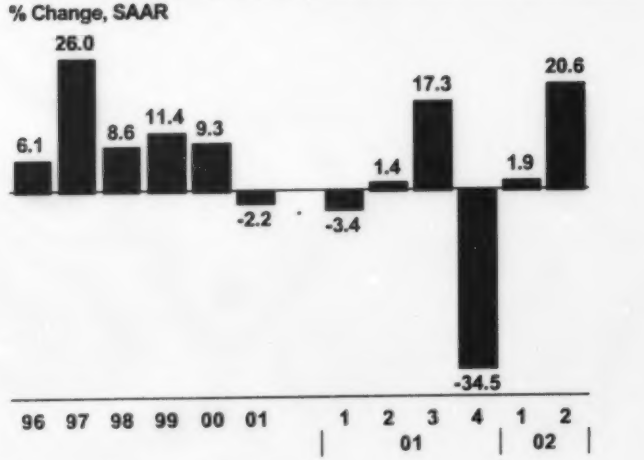
Source: Statistics Canada

...and robust investment in Machinery and Equipment

Business investment in Machinery and Equipment (M&E) jumped a significant 20.6% in the second quarter, following a mere 1.9% growth in the first quarter and a sharp decline of 34.5% in the fourth quarter.

- **This strong improvement reflects strength in aircraft and locomotives, and computers and office equipment.**

Real Machinery & Equipment Investment



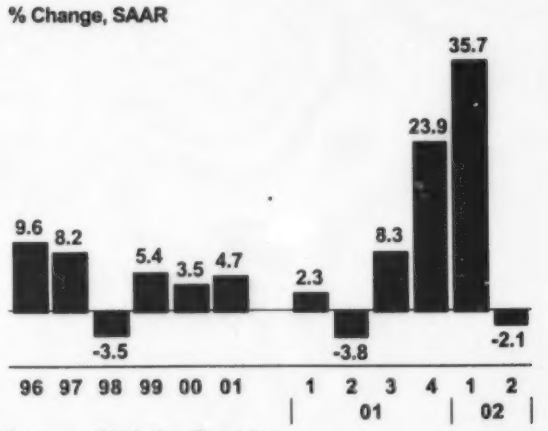
Source: Statistics Canada

However, housing activity slowed

Following three quarters of substantial growth, residential investment declined in the second quarter by 2.1%, led by a 37% decline in housing resale activity.

However, new housing investment increased 11.9% and renovations rose 2.7%.

Real Residential Construction Growth



Source: Statistics Canada

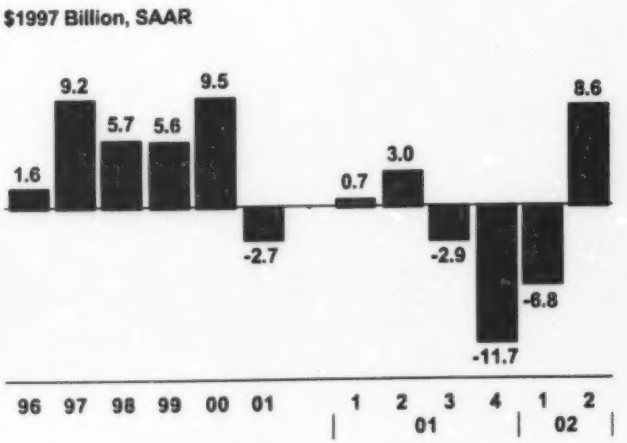
Inventories rebounded in the second quarter

Inventories increased sharply in the second quarter, following three consecutive quarters of run-downs. Inventory investment accumulated $8.6 billion in the second quarter following a decline of $6.8 billion in the first quarter.

- **Manufacturers, retailers and wholesalers accounted for the increase in stockpiling.**

The inventory-to-sales ratio remained at 0.66 despite the large increase in inventory. This suggests that the replenishing of inventories was in line with expected sales and that, subsequently, there may be no need for significant inventory adjustments.

Non-farm Business Inventory Investment

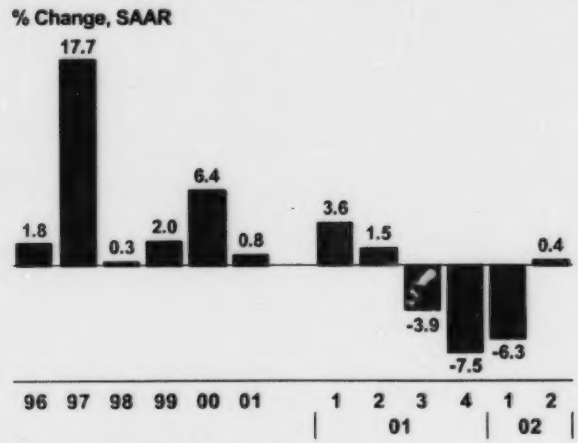


Source: Statistics Canada

Non-residential construction rose slightly

Non-residential construction rose 0.4% in the second quarter, ending three previous consecutive quarterly declines.

Real Non-residential Construction Growth



Source: Statistics Canada

Exports slowed in the second quarter, while imports jumped

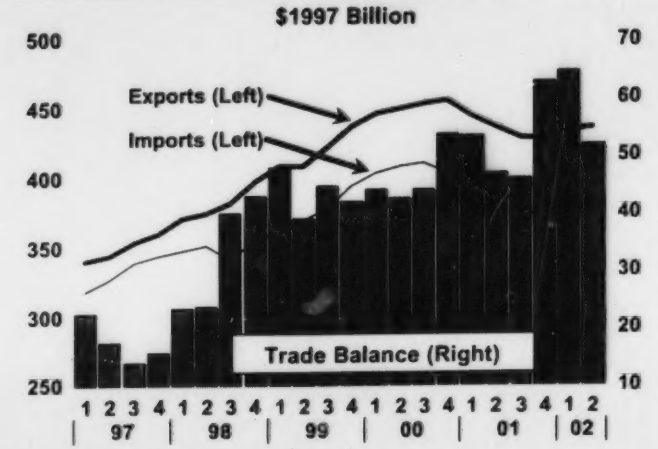
Reflecting slowing demand in the U.S., export growth slowed in the second quarter.

- **Real exports grew by only 1.8% in the second quarter, following a strong rise of 5.4% in the previous quarter.**

In contrast, strong domestic demand led to a sharp increase in imports.

- **Real imports jumped 16.8% in the second quarter, following a rise of 4.3% in the previous quarter. Imports of automobile products and machinery and equipment were particularly strong.**

Real Exports and Imports of Goods & Services



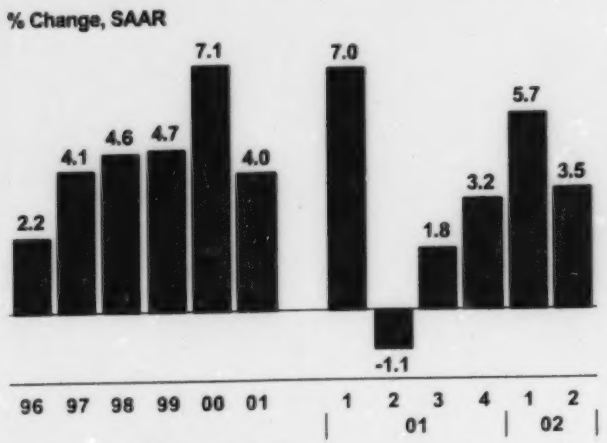
Source: Statistics Canada

Domestic Scene

Income Side

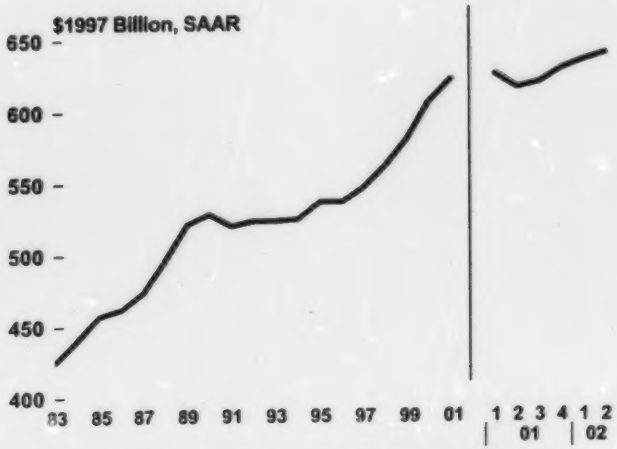
Personal disposable income rose further...

Growth in Personal Income



Source: Statistics Canada

Real Personal Disposable Income*



*Converted to real dollars using the chain price index for personal expenditure on goods and services.
Source: Statistics Canada and Industry Canada

Personal income rose at an annualized rate of 3.5% in the second quarter, the fourth straight quarterly increase. While growth in labour income and unincorporated business remained strong in the second quarter, investment income weakened further due to low interest rates, a substantial slowdown in government transfers, and a fall in non-residential transfers.

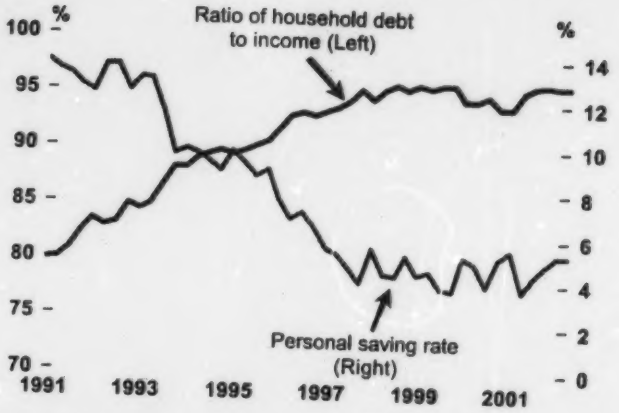
Real personal disposable income growth moderated to 2.5% from 4.2% in the first quarter.

...while the saving rate remained stable

Personal saving as a percentage of disposable income remained at 5.3% in the second quarter, up sharply from a low of 3.7% in the second quarter of 2001.

Similarly, the household debt-to-income ratio was unchanged from the first quarter at 95.8%, as total debt (the sum of consumer and mortgage debt) rose in proportion with disposable income.

Personal Debt and Savings Rate



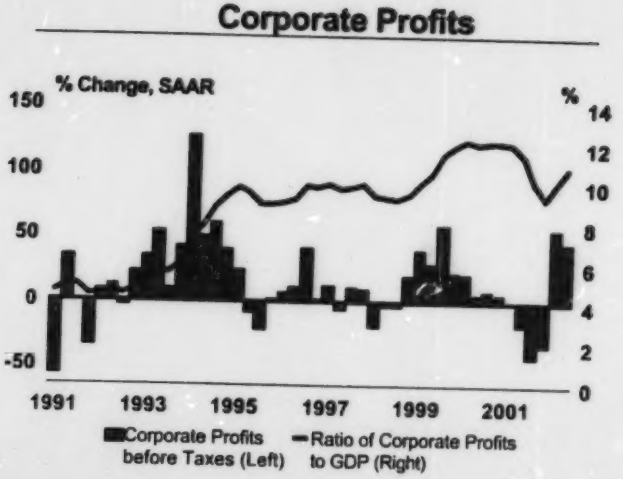
Source: Statistics Canada

Corporate profits continued to recover

Corporate profits rose at an annual rate of 45.4%, following a 55.8% increase in the first quarter. Despite these increases, profits are still 6.5% below the peak reached in the first quarter of 2001.

- **The second quarter increase was broad based with almost two-thirds of the 24 major groups reporting increases, particularly the manufacturing, wholesaling, retailing and oil and gas industries. These gains greatly offset losses in the computer and electronic products industries.**

The profit share of GDP increased further to 10.9% in the second quarter from 10.2% in the first quarter. The ratio is still lower than the peak of 12.2% obtained in the first quarter of 2000 but close to the average of the 1990-2000 period.



Source: Statistics Canada

Domestic Scene

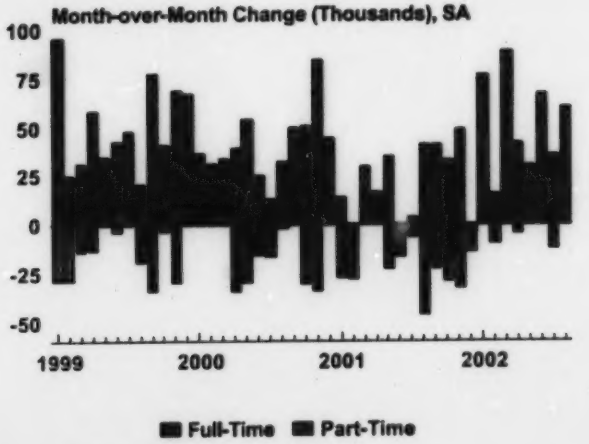
Labour Situation

Employment posted its eighth consecutive monthly increase in August.

In August, 59 000 more jobs were created, bringing total job gains to 386 000 or 2.6% in the first eight months of 2002. This is the largest eight-month gain since 1994.

Most of the jobs created so far this year are full-time jobs (+260 000). This is in contrast to last year when 26 000 full-time jobs were lost, while part-time employment increased by 39 000.

Employment Growth



Source: Statistics Canada

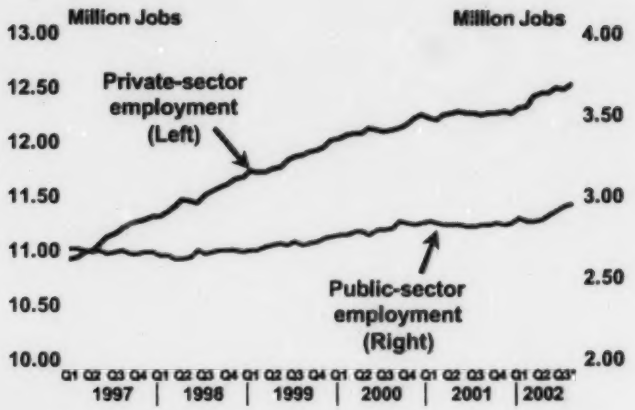
In contrast to Canada, employment conditions have been weak in the U.S. Non-farm employment rose by only 39 000 in August and 67 000 in July, helping to moderate the total job losses so far this year. Manufacturing employment fell by 68 000 in August, a significant deterioration from the average loss of 18 000 jobs in the previous four months. The unemployment rate edged down 0.2 percentage point to 5.7%.

More private than public sector jobs were created in August.

In August, private sector employment (+51 000) accounted for most of the growth in paid employment. So far this year the private sector has created 199 000 jobs. The public sector created 11 000 jobs in August and 113 000 jobs since the beginning of the year.

Paid employment increased by 62 000 in August, self-employment decreased by 3 000. In the first eight months of 2002, paid employment increased by 312 000 jobs and self-employment by 73 000 jobs.

Employment: Private vs. Public



*Data for 2002Q3 includes July and August only.

Source: Statistics Canada

D-2

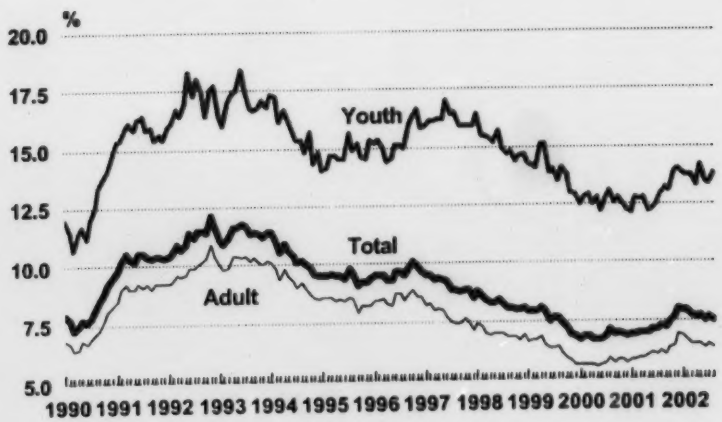
The unemployment rate fell slightly as more Canadians entered the labour force.

The unemployment rate edged down 0.1 percentage point in August to 7.5%. Despite strong employment growth, the unemployment rate has fallen only half a percentage point since its December peak of 8.0%. Better economic conditions have encouraged more Canadians to enter the labour force. In August, the participation rate was at the highest level since 1990.

The unemployment rate for youth rose 0.4 of a point to 13.8%, reflecting a larger increase in the labour force (+36 000) than in employment (+20 000).

The unemployment rate for adults continued its downturn, falling 0.2 of a point to 6.3% in August, reflecting job gains for both adult men and women.

Unemployment Rates



Source: Statistics Canada

D-3

Job gains in August were concentrated in Ontario and British Columbia.

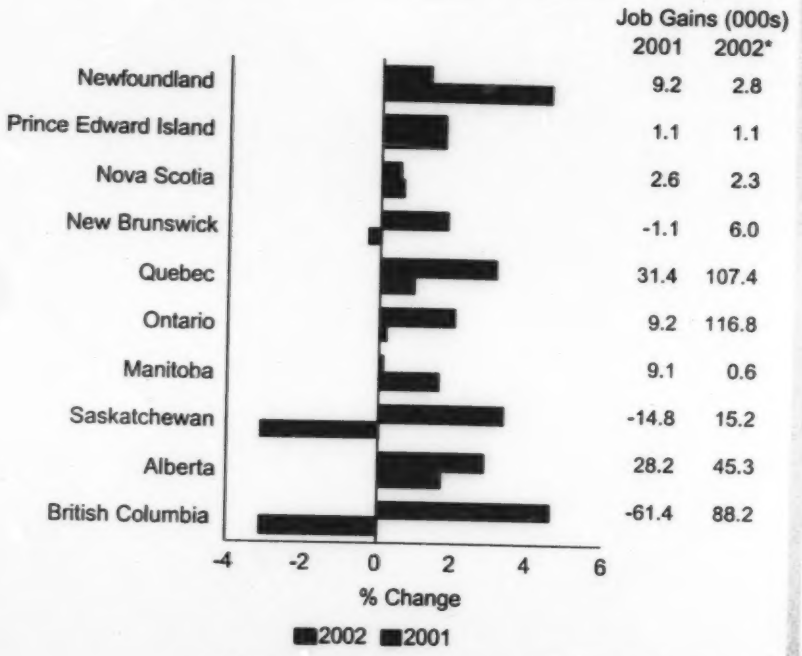
Ontario's employment rose by 44 000 in August, the largest monthly increase since January 1989. Consequently, in the first eight months of 2002 Ontario has created almost one third of the job gains in Canada, mostly in Manufacturing.

In August, employment fell (-6 000) in Quebec, but the province has created 107 000 jobs so far in 2002, with notable gains in Management & Administration, Construction, Educational Services and Manufacturing.

In Atlantic Canada, the largest job gains this year have been posted by New Brunswick and Newfoundland.

Led by B.C. and Alberta, all of the western provinces posted job gains so far this year. The largest job gains in B.C. have been in Manufacturing and Construction. The job gains in Alberta were widespread.

Employment Growth by Province



*Figures for 2002 are year-to-date (January-August)
Source: Statistics Canada

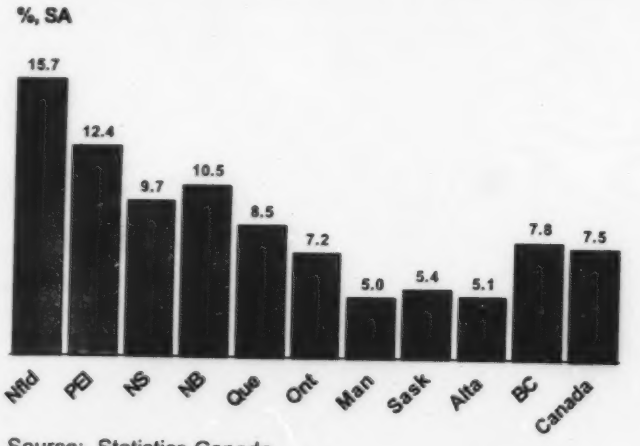
D-4

The unemployment rate has fallen in most provinces, particularly in B.C. and Quebec.

Since December, the unemployment rate has fallen in all provinces except in Manitoba (+0.4 point to 5.0%), Ontario (+0.3 point to 7.2%) and Alberta (unchanged at 5.1%).

The most notable declines have been in B.C. (-1.9 percentage points to 7.8%), Newfoundland (-1.3 points to 15.7%), Quebec (-1.2 points to 8.5%) and New Brunswick (-0.9 points to 10.5%).

Unemployment Rates: August 2002



Source: Statistics Canada

Domestic Scene

Sectoral Overview

Production increased in most industries in the second quarter

Output in the Goods-producing industries rose by 6.8% (annual rate) in the second quarter of 2002, the second consecutive quarterly increase.

- **Manufacturing output continued to rise and accounted for about 75% of the overall production increase in the Goods-producing industries. All major groups reported gains with the Transportation and Wood products sectors posting the largest increases.**

- **Strong demand for new housing further boosted output in the Construction industry, while production in the Mining & Oil & Gas extraction sector declined by 1.9% as a result of lower drilling and rigging activity.**

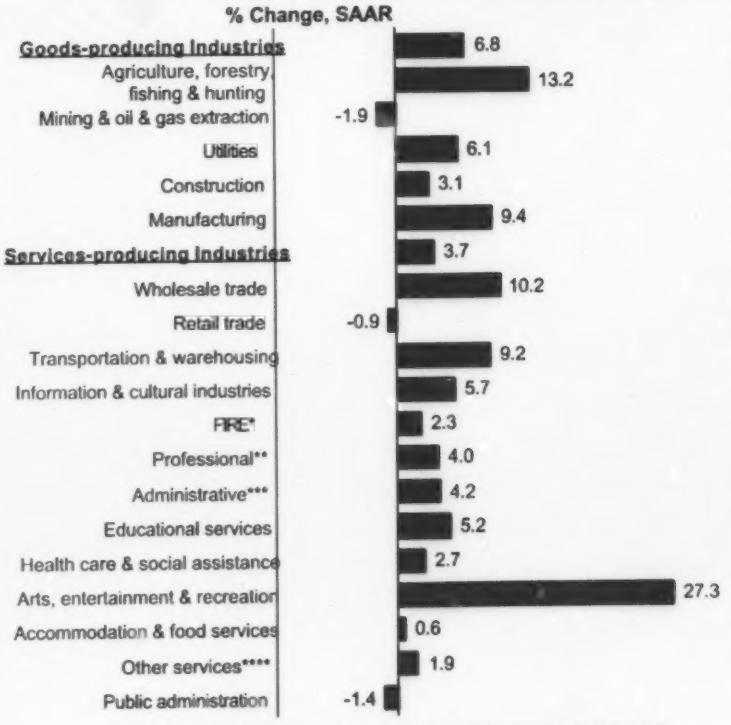
Output in the Services-producing industries was up 3.7% in the second quarter, following a rise of 4.4% in the first.

- **Output gains were fairly widespread, with notable growth in Arts, Entertainment & Recreation, Wholesale Trade and Transportation & Warehousing.**

- **Declines were reported only in Retail Trade and Public Administration.**

Overall, real GDP at basic prices rose 4.7% in the second quarter following a rise of 5.5% in the first. Most of the increase was recorded in April (0.8%) as the economy lost some momentum in the following two months.

Real GDP Growth by Industry: 2002Q2



* Includes finance & insurance, real estate & renting & leasing & management of companies & enterprises
** Includes professional, scientific & technical services
*** Includes administrative & support, waste management & remediation services
**** Except public administration

Source: Statistics Canada

E-1

Recovery in corporate operating profits continued

Along with good economic conditions, corporate operating profits rose 10.7% in the second quarter of 2002, following a similar gain in the first quarter. Profits have now returned to their second quarter 2001 level, but they are still below the peak recorded in quarter four of 2000.

Manufacturers' operating profits increased for the third straight quarter, driven by strong growth in the motor vehicles industry. On the other hand, manufacturers of electronic products registered operating losses for the fourth time in the past five quarters.

Profits in the Mineral Fuel industry surged 59.7% in the second quarter but was still well below its peak of $7.5 billion reached in early 2001.

Profits increased 6.8% in the Financial sector, reflecting primarily gains by Depository and Other financial intermediaries. Profits fell in other financial categories, notably a decline of over $0.5 billion in Funds and Other Financial Vehicles as a result of realized losses on the sale of investments.

Corporate Operating Profits

	2002Q2 Level ($M)	Difference 02Q1-02Q2 ($M)	02Q1-02Q2 (%)	01Q2-02Q2 (%)
Total - All Industries	38,754	3,753	10.7	-0.2
Total Non-Financial	30,458	3,227	11.9	2.4
Agriculture, forestry, fishing & hunting	349	3	0.9	-32.0
Mineral fuels	4,279	1,600	59.7	-22.8
Mining except mineral fuels	344	-99	-22.3	-43.4
Utilities	856	-94	-9.9	37.2
Construction	849	232	37.6	-1.2
Manufacturing industries	9,895	569	6.1	1.5
Wholesale trade industries	2,646	249	10.4	10.1
Retail trade industries	2,353	248	11.8	44.3
Transportation and warehousing	1,521	139	10.1	24.5
Information and cultural industries	1,926	-24	-1.2	11.8
Real estate, rental and leasing	2,588	41	1.6	-1.4
Professional/Scientific	754	180	31.4	51.4
Management of companies	3,159	-89	-2.7	-11.5
Other services to business	710	163	29.8	-14.7
Education services	-48	10	-17.2	-18.6
Health care and social assistance	380	12	3.3	16.6
Arts, entertainment and recreation	92	-31	-25.2	8.2
Accommodation and food services	636	-7	-1.1	36.8
Other services	327	35	12.0	240.6
Total Financial	8,296	525	6.8	-8.8
Depository credit intermediation	3,313	631	23.5	-20.9
Non-depository credit intermediation	1,263	-25	-1.9	-3.2
Insurers	885	-285	-24.4	-13.3
Funds and other financial vehicles	1,737	-542	-23.8	-56.9
Other financial intermediaries	2,835	204	7.8	9.8

Source: Statistics Canada

Increased capital spending is predicted for 2002

In light of improving economic conditions, the July survey of private and public investment intentions reported that investment in Plant & Equipment is expected to increase 0.4% in 2002, as opposed to the 1.6% decline anticipated in February.

- **The upward revisions are largely concentrated in the Public Administration and the Transportation sectors, mainly reflecting higher construction spending on infrastructure.**

Government investment (excluding health & education) is expected to surge 20.5% in 2002. Driven by electric power projects, capital spending in Utilities should also post strong growth (+22.2%).

Investment in Oil & Gas extraction should decline 13.4%, reflecting low prices for oil and lowered well completions and drilling activity. Capital spending in Information & Cultural is also expected to decline sharply (-12.1%).

2002 Revised Investment Intentions by Industry (Plant and Equipment)

* Comparison between the revised intentions for 2002 and the preliminary actuals for 2001

Note: Primary includes Agriculture, Forestry, Fishing and Hunting; Trade includes Wholesale Trade and Retail Trade; Transportation includes Warehousing; **FIRE represents Finance, Insurance, Real Estate, and Rental and Leasing; Professional & Scientific include Technical services; Management and Administrative includes Waste Management and Remediation services; Other Services include Arts, Entertainment, Recreation, Accommodation and Food services

Source: Statistics Canada Survey of Public and Private Investment Intentions

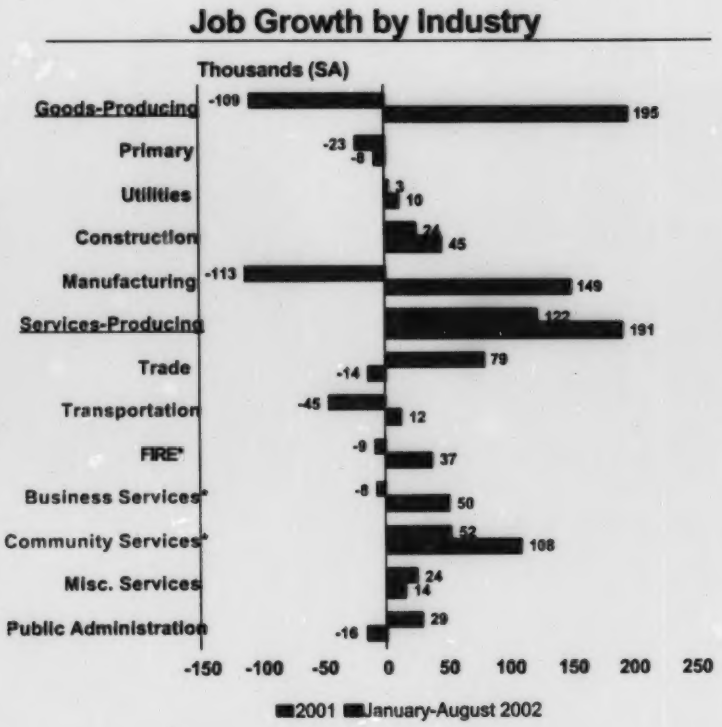
Manufacturing sector has accounted for the largest job gains so far in 2002...

Employment in the Goods sector is up 195 000 over the first eight months of the year, more than offsetting the losses of 2001.

- **Gains were largely concentrated in Manufacturing (+149 000) and Construction (+45 000). The Primary sector is the only sector posting job losses (-23 000) this year.**

In the Services industries, 191 000 jobs have been created so far this year, up from 122 000 job gains in 2001.

- **While gains in 2001 were concentrated in Trade, Community Services and Public Administration, they have been concentrated in Health Care & Social Assistance, Finance, Insurance & Real Estate and Information, Culture & Recreation this year. In contrast to last year, Public Administration and Trade have posted job losses so far this year.**

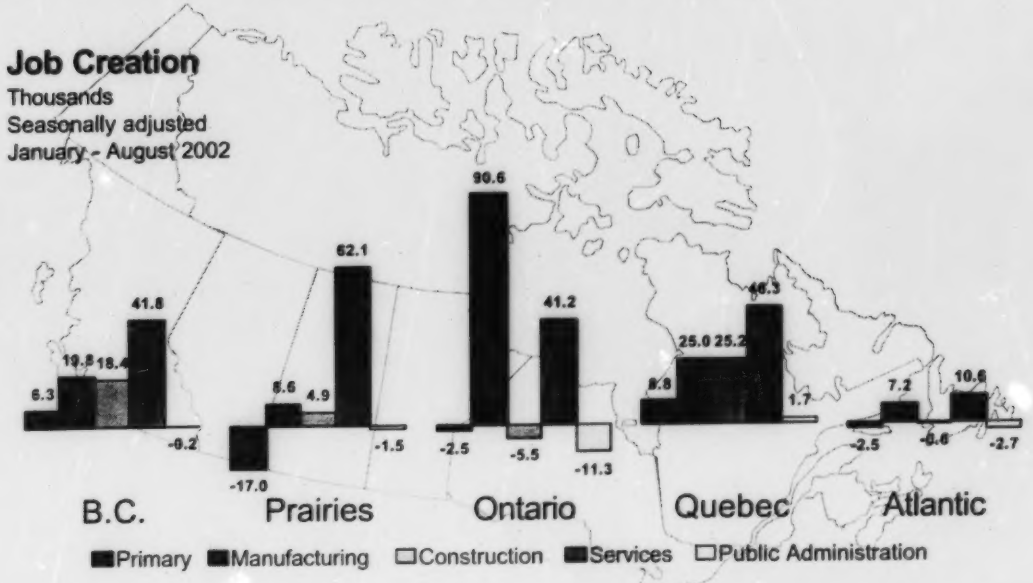


*FIRE: Finance, Insurance, Real Estate and Leasing
Business Services: Management, Administrative, Professional, Scientific & Technical Services
Community Services: Educational Services, Health & Social Assistance.

Source: Statistics Canada

E-4

...and was concentrated in Ontario, Quebec and B.C.



On a year-to-date basis, Manufacturing employment increased in all regions of Canada. The highest gains were in Ontario, Quebec and B.C. Jobs in the Primary sector fell in all regions, except Quebec and B.C. The largest loss was posted by Natural Resources in Alberta where the decline in energy prices through 2001 slowed activities in the oil & gas sector.

Employment in Services increased in every region of the country. Gains in Construction employment have taken place mainly in Quebec and B.C. The number of jobs in Public Administration fell in all regions, except in Quebec.

Wage settlements remained over the inflation in all industries

Wage settlements averaged 2.7% in the first six months of 2002, down slightly from the 2001 average, but 1.3 percentage points higher than the CPI inflation.

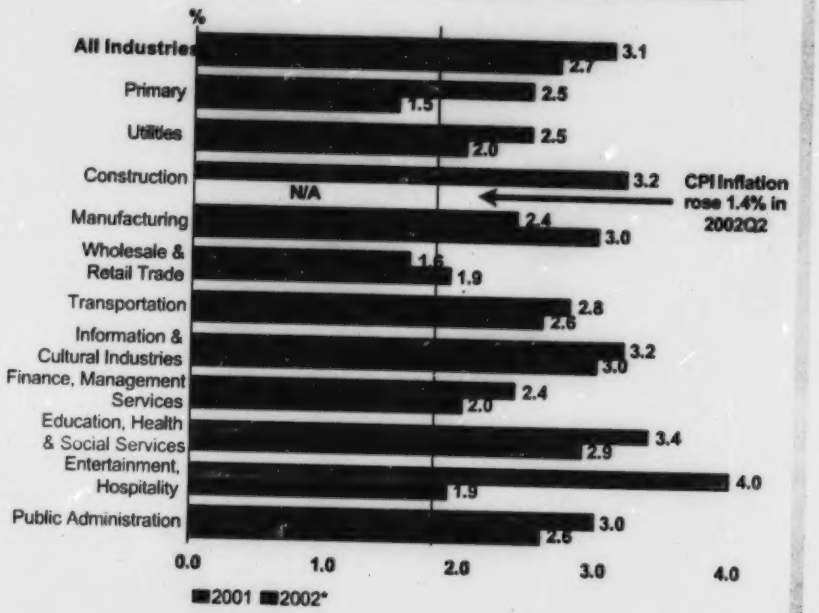
- **Wage increases were above inflation in all industries.**

- **In line with strong employment growth since January, the Manufacturing and Information & Cultural industries have posted the highest average wage settlements rates so far this year.**

Public-sector wage settlements (+2.8%) were a 0.5 percentage point above those in the Private sector (+2.3%) for the January to June period.

Wage settlements in the second quarter averaged 2.7%, slightly below the 2.9% recorded in the first quarter.

Wage Settlements by Industry



Effective average annual adjustments in base wage rates from major collective bargaining agreements.
*2002 data cover agreements reached over the January to June period.

Source: Human Resources Development Canada

Capacity utilization increased further in the second quarter

The capacity utilization rate was up 1.3 percentage points to 83.2% in the second quarter. This was the second consecutive increase following a string of five quarterly declines. Although capacity utilization recovered from its low of 80.5% of the last quarter of 2001, it remained below its peak of 86.2% reached in the third quarter of 2000.

Most industries reported higher capacity utilization rate in the second quarter, notably in Forestry & Logging and Manufacturing. Production surged in the Forestry & Logging industry, with exports to the United States intensifying as softwood lumber duties were temporarily lifted. Use of capacity was also up in the Construction industry, sustained by high demand for houses. Mining, Oil & Gas Extraction recorded the only decline in capacity utilization.

Within Manufacturing, 18 of the 21 groups increased their utilization rate.

- **Notable increases were reported in Transportation Equipment, boosted by a strong North American demand for motor vehicles, and in Wood products, benefiting from the elimination of the softwood lumber duties between April 22 and May 21.**

Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2002Q2	Change (% points) Q/Q	Change (% points) Y/Y	10-year Average
Total industrial	83.2	1.3	-0.1	82.4
Forestry & logging	80.7	8.7	-3.6	82.5
Mining & oil & gas extraction	74.0	-0.5	-4.8	79.0
Electric power *	88.5	0.6	-0.3	83.6
Construction	90.8	0.5	1.2	83.1
Total Manufacturing	82.7	1.8	0.9	83.0
Food	83.3	1.1	1.3	80.7
Beverage & tobacco products	74.4	-0.4	-3.9	80.2
Textiles	80.8	1.9	1.4	80.8
Textile mills	81.5	1.0	0.2	83.1**
Textile product mills	79.9	3.1	3.0	79.6**
Clothing	84.9	2.8	0.6	82.6
Leather & allied products	71.5	0.7	-3.3	74.3
Wood products	91.5	5.1	9.0	86.3
Paper	90.1	2.7	1.1	90.1
Printing & related support activities	74.0	1.4	-1.4	77.9
Petroleum and coal products	96.8	0.9	2.8	91.9
Chemical	80.7	2.5	0.9	82.1
Plastic & rubber products	87.6	3.3	6.7	83.4
Non-metallic mineral products	80.1	-0.4	1.0	77.2
Primary metal	89.3	1.0	1.8	89.7
Fabricated metal products	82.5	2.1	2.0	79.8
Machinery	78.6	1.0	-1.4	80.2
Computer & electronic products	66.9	1.0	-7.6	79.8
Electrical equipment	67.9	1.2	-10.1	82.9
Transportation equipment	90.5	2.3	5.0	84.6
Furniture & related products	73.5	-0.5	-7.5	80.1
Miscellaneous manufacturing	81.8	3.2	1.5	81.8

* Electric power generation, transmission & distribution
** Represents data available between 1997Q1-2002Q2
Source: Statistics Canada

Domestic Scene

Productivity & Competitiveness

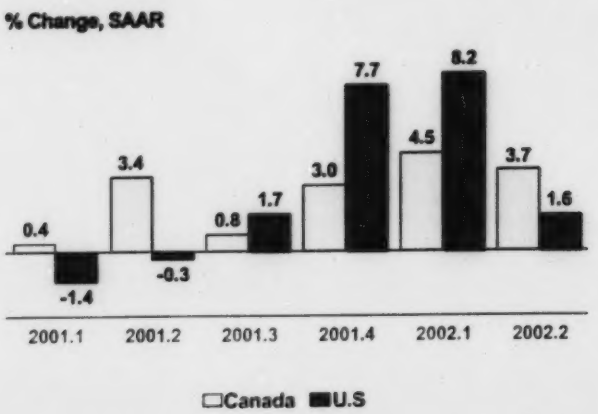
Canada outperformed the U.S. in productivity growth in the second quarter...

Canadian labour productivity grew by 3.7% (annual rate) in the second quarter, compared to 4.5% in the first.

- **U.S. labour productivity growth moderated even more, falling to 1.6% in the second quarter from 8.2% in the first quarter.**

- **However, on average, labour productivity in Canada still grew slower than in the U.S. for the first two quarters. Thus, the Canada-U.S. productivity gap continued to widen in 2002.**

Productivity Growth



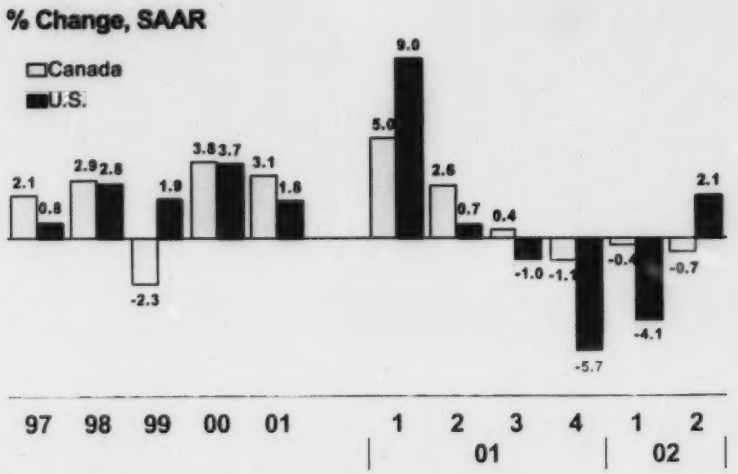
Source: Industry Canada calculations

... and unit labour costs in the second quarter...

Following a decrease of 0.4% in the first quarter, unit labour costs in the business sector were down 0.7% (annual rate) in the second quarter.

In the U.S., unit labour costs were up by 2.1% in the second quarter after a decrease of 4.1% in the first quarter.

Growth in Unit Labour Costs*



* For the business sector
Source: Statistics Canada, Bureau of Labor Statistics and Industry Canada calculations.

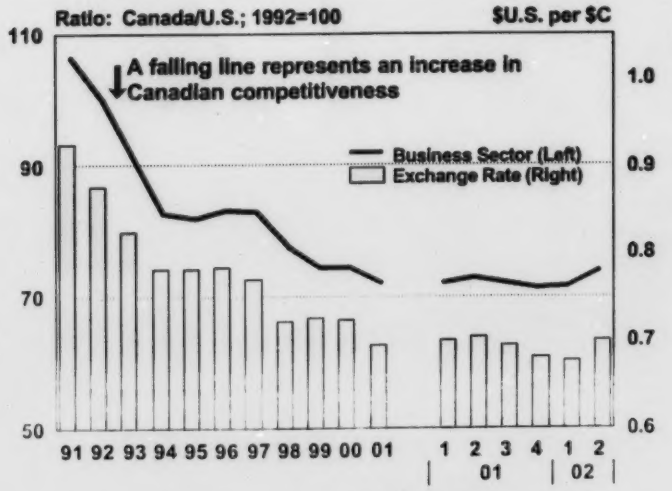
F-2

... but, its competitiveness weakened as the dollar recovered.

In the second quarter, the competitiveness of Canadian firms relative to U.S. firms slipped for the first time since the same period in 2001. On the same currency basis ($US), unit labour costs rose by 14.9% in Canada and only 2.1% in the U.S.

- **This primarily reflected a recovery in the Canadian dollar, which strengthened to US$0.65 in the second quarter from US$0.63 in the first (+13.3%).**

Unit Labour Cost Comparison ($US)



Source: Industry Canada calculations based on data from the U.S. Bureau of Labor Statistics and Statistics Canada

F-3

Domestic Scene

International Accounts

The Current account surplus moderated in the second quarter...

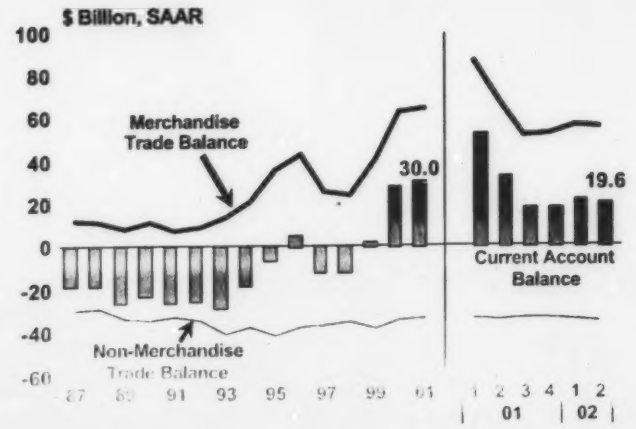
Canada's current account surplus fell by $0.4 billion to $4.9 billion ($19.6 billion annualized) in the second quarter. However, this was the tenth consecutive quarter that the surplus had been above $4.0 billion, a level never reached before 2000. A decrease in the goods and services surplus accounted for most of the decline.

On the capital and financial account, Canadians invested $11.8 billion in foreign countries in the second quarter, while foreigners invested $11.5 billion in Canada.

- At $8.3 billion, Canadian direct investment abroad was $1.7 billion higher than in the first quarter. Half of this went into the acquisition of existing firms. Regionally, the majority of the investments went to Europe and the U.S.

- **Foreign direct investment of $7.9 billion flowed into Canada, down by $9.4 billion from the first quarter, as acquisitions of Canadian firms fell to their lowest level in five quarters.**

Current Account & Trade Balances



The merchandise trade balance represents net exports of goods.

The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

Source: Statistics Canada

G-1

...largely reflecting a decrease in the goods and services trade surplus ...

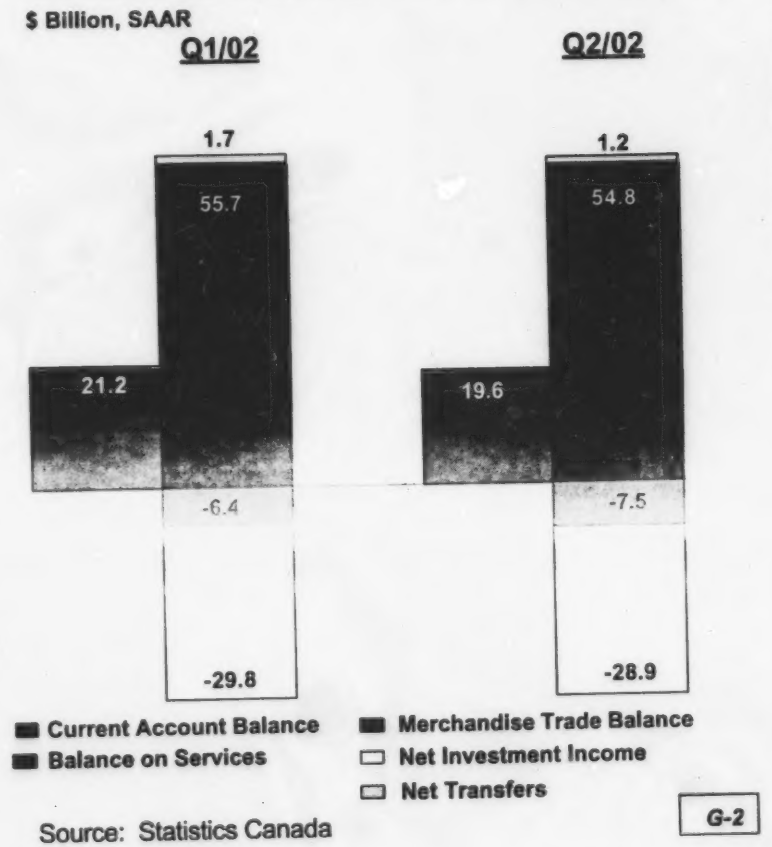
The merchandise trade surplus decreased by $0.2 billion to $13.7 billion ($54.8 billion annualized) in the second quarter, as imports rose faster than exports.

- **The goods surplus with the U.S. rose for a second consecutive quarter, mainly due to higher energy prices. This was more than offset by a larger deficit with the European Union.**

The deficit on services rose from $1.6 billion in the first quarter to $1.9 billion ($7.5 billion annualized) in the second quarter, largely due to a higher deficit on the travel account.

However, the deficit on investment income decreased, as profits from Canadian direct investment abroad reversed three quarters of declines.

Main Components of the Current Account



Source: Statistics Canada

G-2

...resulting from slower growth in exports ...

Merchandise exports rose 2.3% in the second quarter, following a gain of 2.9% in the first quarter.

Despite the increase in the past two quarters, total exports for the first six months of the year are down from the same period in 2001.

- **The decline in exports was widespread, down 10.1% to Japan and 7.5% to the U.S. and the European Union.**

- **By principal commodities, exports were down for Energy Products (-34.9%), largely due to significantly lower prices, Machinery & Equipment (-9.2%) and Forestry Products (-8.5%). However, exports of Automotive Products and Other Consumer Goods were up, reflecting a consumer-led recovery in the U.S.**

Merchandise Exports, 2002Q2

	$ Billion	% Change Jan.-June/01 - Jan.-June/02
Total	201.3	-7.4
By Trade Partner		
U.S.	170.6	-7.5
Japan	4.6	-10.1
E.U.	10.9	-7.5
All Others	15.3	-6.2
By Principal Commodity		
Agricultural & Fishing Products	15.2	0.4
Energy Products	22.4	-34.9
Forestry Products	18.6	-8.5
Industrial Goods & Materials	34.3	2.1
Machinery & Equipment	47.2	-9.2
Automotive Products	47.9	2.8
Other Consumer Goods	8.5	6.0

Source: Statistics Canada

G-3

...than imports.

Merchandise imports rose 2.9% in the second quarter of 2002, following a gain of 2.2% in the first quarter.

Despite the increase in the past two quarters, total imports for the first six months of this year are down from the same period in 2001.

- **Imports from all the major trading partners decreased, except those coming from Japan, which increased by 12.3%.**

- By principal commodities, imports are down for Energy products (-26.8%), Machinery & Equipment (-11.0%) and Industrial Goods (-3.6%). In line with a pick up in domestic demand, there were, however, notable increases in imports of consumer goods and automotive products.

Merchandise Imports, 2002Q2

	$ Billion	% Change Jan.-June/01 - Jan.-June/02
Total	173.7	-3.1
By Trade Partner		
U.S.	125.3	-4.3
Japan	5.7	12.3
E.U.	17.4	-1.3
All Others	25.2	-1.1
By Principal Commodity		
Agricultural & Fishing Products	10.7	6.9
Energy Products	7.3	-26.8
Forestry Products	1.5	4.4
Industrial Goods & Materials	34.1	-3.6
Machinery & Equipment	52.2	-11.0
Automotive Products	39.1	9.3
Other Consumer Goods	22.5	5.9

Domestic Scene

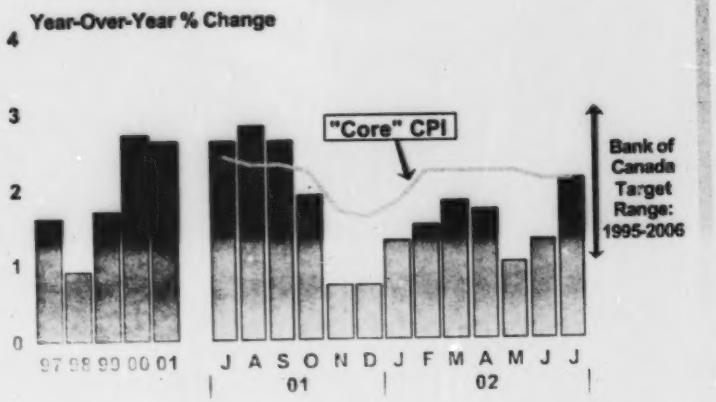
Price Movements

Overall inflation has risen in recent months, but core inflation remains under control...

Consumer price inflation, as measured by the year-over-year increase in the Consumer Price Index (CPI), has risen from a recent low of 1.0% in May to 2.1% in July.

"Core" inflation – which excludes the most volatile components of the overall CPI and indirect taxes and is the target for monetary policy – was 2.1% in July, unchanged from June. Core inflation has averaged 2.1% so far this year, remaining near the midpoint of the official 1-3% target range.

Consumer Price Index



In May 2001, the Bank of Canada and the Finance Department announced the renewal of the inflation target for monetary policy until 2006. The Bank also refined its measure for the underlying trend in inflation as measured by "core" inflation.
The "Core" CPI excludes prices for fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products as well as indirect taxes.

Source: Statistics Canada & Bank of Canada

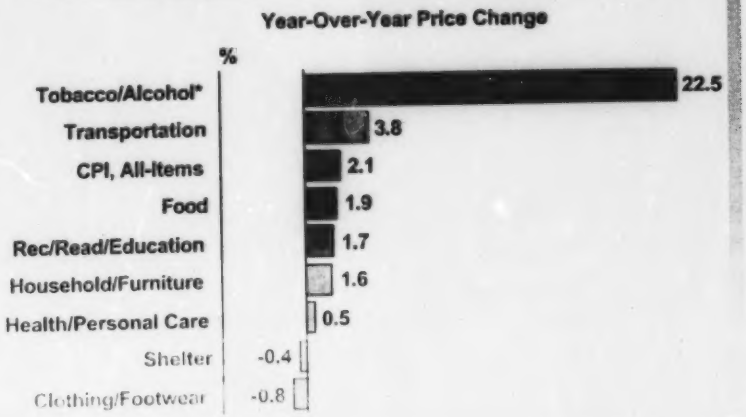
...reflecting the upward pressure from rising cigarette prices and an end to gasoline price deflation

At 2.1% in July, the year-over-year inflation was up from 1.3% in June.

- **After one year of deflation, gasoline prices increased 5.0% in July, pushing total CPI inflation higher. Higher cigarette prices, due to federal and provincial taxes, and in electricity prices also contributed to the rise.**

Excluding energy and food prices, consumer price inflation has risen from a low of 1.6% in December to 2.9% in July.

Components of CPI: July 2002



* Increases in sales taxes on cigarettes last November and since February have pushed the Tobacco & Alcohol price index higher. As a result of these increases, the rise in the index has averaged 14.9% since November.

Source: Statistics Canada

Manufacturers' prices remain moderate, while raw material prices are moving higher

Industrial product prices – those received by producers at the factory gate – were down 0.3% in July from their levels a year ago, the smallest decline in ten months.

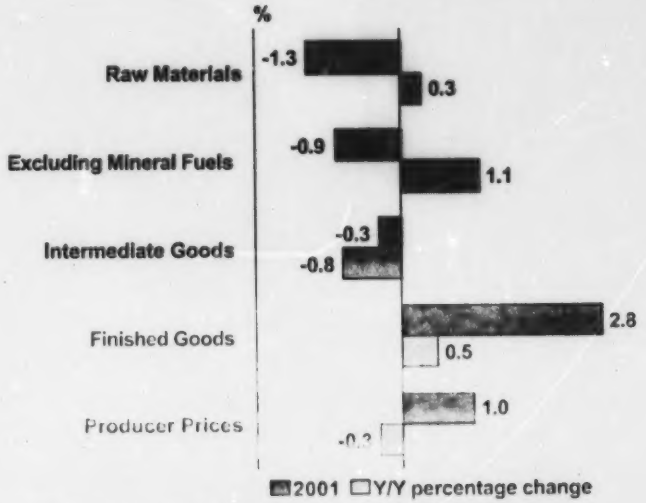
- **The prices of petroleum and coal products and primary metals have been trending up since the end of 2001, putting upward pressure on manufacturers' prices.**

- **The fall in wood product prices in recent months has moderated this advance.**

On a year-over-year basis, the prices of raw materials were up 0.3% in July, putting an end to 11 months of declines.

- **Raw material prices were up almost 14% from the lows of last December, driven by a recovery in crude oil prices and by rising non-ferrous metal prices, such as nickel and precious metals.**

Price Chain - July 2002



Source: Statistics Canada

Domestic Scene

Financial Variables

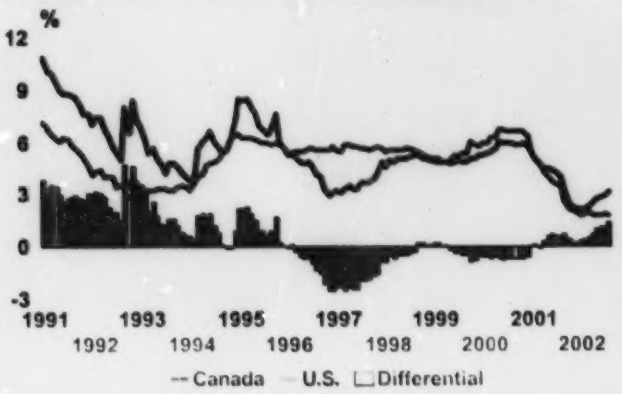
North American monetary authorities keep credit conditions accommodative

The Bank of Canada left its target for the overnight rate unchanged at 2.75% on September 4th after three increases since April. The Bank's decision reflected its concerns about weakened near-term prospects for growth in the U.S. and abroad, combined with "increased uncertainty associated with global financial markets volatility and the unsettled geopolitical situation."

In light of the subdued economic recovery in the U.S., the Federal Reserve kept its Federal Funds rate unchanged at 1.75% in August and left the door open for lowering policy rates should the economy weaken further.

Consistent with these developments, money market rates in Canada have trended up in recent months, while U.S. rates have been fairly stable.

Short-Term Interest Rates



Source: Bank of Canada, 90-day Commercial Paper, last Wednesday in the month

Newly released announcement dates in Canada

2002:	16 October	3 December
2003:	21 January	15 July
	4 March	3 September
	15 April	15 October
	3 June	2 December

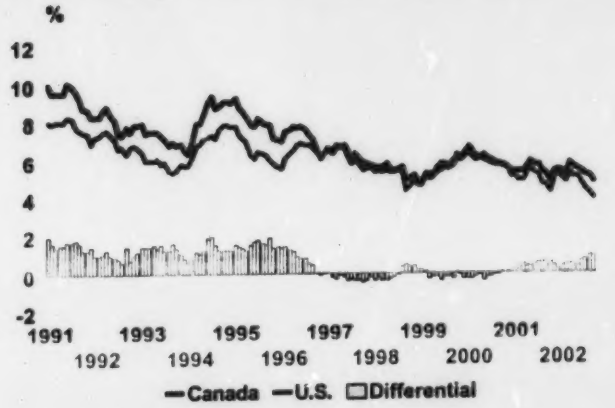
Long-term bond yields fall further...

North American long-term interest rates have declined markedly from their peak of last March.

The decline occurred on mounting signs of a weak economic recovery in the U.S. and was exacerbated by inflows of investor funds into treasury markets on growing evidence of corporate accounting scandals.

As the Canadian ten-year bond yield fell less than its U.S. counterpart, the spread **widened to 92 bps in August, the largest** since mid-1996.

Long-Term Interest Rates



Last data point plotted: September 4, 2002

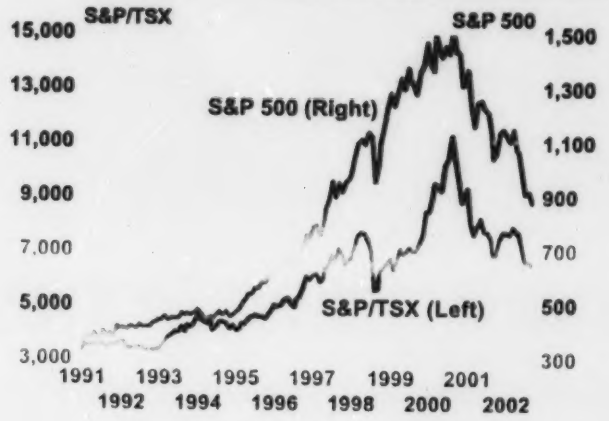
Source: Bank of Canada, 10-year Government bond, last Wednesday in the month

...as investors shy away from equity markets on lingering concerns about corporate scandals and profit outlook

Major North American equity markets fell to their lowest levels in more than four years in July as uncertainty over the reliability of corporate reporting and the recovery in corporate profits prompted a sell-off of equities in favour of bonds and other asset categories. Subsequently equity markets have remained volatile.

- On September 13, the S&P/TSX index was down 18% from its peak in March, while the S&P 500 was down 24%. The S&P 500 was more than 5 percent below the lows reached after September 11th last year.

Stock Market Indices



Last data point plotted: September 5, 2002

* On May 1st, Canada's main equity index was renamed the Standard & Poor/Toronto Stock Exchange index (S&P/TSX).

Source: Statistics Canada

Increased global market volatility weighed on the Canadian dollar

The Canadian dollar fell sharply in July, giving back most of the gains it made in the second quarter. Subsequently, it partially recovered and has hovered around US64¢ in recent weeks.

- **Concern that some of the weakness in the U.S. could spill over to Canada, on top of the general disquiet in financial markets, weighed on the Canadian dollar in July.**

- **More recently, the currency has benefited from signs that Canada's economy continued to outperform that of the U.S. and from higher Canadian interest rates relative to the U.S.**

Canada-U.S. Exchange Rate

Last data point plotted: September 4, 2002

Source: Bank of Canada

Domestic Scene

Fiscal Track

Federal finance are on track for a fifth straight surplus

According to the Minister of Finance's speech at the Finance Committee meeting last June, the federal government will record a fifth consecutive surplus for the fiscal year 2001-02. The Minister said that "after year-end adjustments, which are still to come, we can reasonably expect a surplus of around $6 billion for 2001-2002."

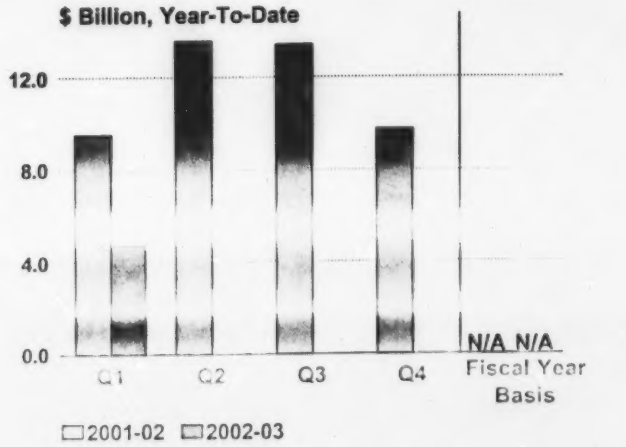
- **More than $41 billion of the public debt has been retired since 1997-98. The net federal public debt-to-GDP ratio has declined from a peak of 71% in 1995-96 to about 50% in 2001-02.**

The surplus for the first quarter of fiscal year 2002-03 was estimated at $4.8 billion compared to a surplus of $9.6 billion reported for the same period last year.

- The lower surplus reflects smaller budgetary revenues attributable to developments affecting final personal income tax payments with respect to the 2001 tax year.

All provinces but B.C., P.E.I. and Nfld & Lab. are expected to record balance budgets or surpluses in 2002-03.

Federal Budgetary Balance



Source: Department of Finance

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For Further Information

We welcome your questions, comments and suggestions? You can reach us by ...

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or faxing us at:	**(613) 952-1936**

The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Policy Branch of Industry Canada. The Monitor provides a quick and easy to read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective. This report uses data available as of September 13, 2002.

The current analysis update was prepared by Jenness Cawthray, Stéphane Crépeau, Anik Dufour, Marianne Blais, Joseph Macaluso, Arif Mahmud, Sue Moore, Patrick Taylor and Jeff Waring, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque, and Sue Hopf is responsible for administrative support.

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